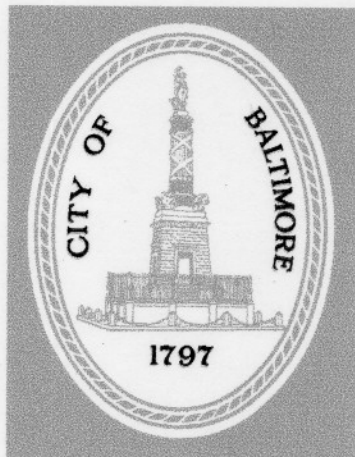


INDEPENDENT AUDITOR'S REPORT

**BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY**

FOR THE FISCAL YEARS ENDED

JUNE 30, 2005 AND 2004



**City of Baltimore
Department of Audits**

**AUDIT REPORT
BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

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ANNUAL FINANCIAL REPORT
OF THE
BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 AND 2004

CITY OF BALTIMORE

SHEILA DIXON, Mayor



DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

INDEPENDENT AUDITOR'S REPORT

June 30, 2006

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates
City of Baltimore

We have audited Exhibit A, the Board of Liquor License Commissioners for Baltimore City's Comparative Statement of Revenues Collected and Expenditures Arising from Cash Transactions for the Fiscal Years Ended June 30, 2005 and 2004. This financial statement is the responsibility of the Board of Liquor License Commissioners for Baltimore City's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the financial statement was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenditures made during the fiscal years ended June 30, 2005 and 2004, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 30, 2006, on our consideration of the Board of Liquor License Commissioners for Baltimore City's internal control over financial reporting and on our tests of its compliance with

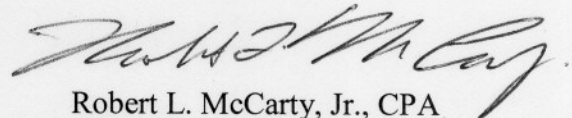


certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The supporting schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

This report is intended solely for the information and use of the Board of Liquor License Commissioners for Baltimore City, the State of Maryland, and the City of Baltimore management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Robert L. McCarty, Jr.", is written over the printed name.

Robert L. McCarty, Jr., CPA
City Auditor

BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
COMPARATIVE STATEMENT OF REVENUES COLLECTED AND EXPENDITURES
ARISING FROM CASH TRANSACTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004	NET CHANGE INCREASE (DECREASE)
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Alcoholic Beverage Licenses.....	\$ 1,678,474	\$ 1,614,033	\$ 64,441
Liquor Board Advertising Fees.....	89,867	71,906	17,961
Liquor Board Fines.....	96,326	56,175	40,151
Liquor Board Late Renewal Fees.....	19,530	17,975	1,555
Liquor Board Reporting Fees.....	1,235	1,808	(573)
	<u> </u>	<u> </u>	<u> </u>
Total Revenues.....	<u>\$ 1,885,432</u>	<u>\$ 1,761,897</u>	<u>\$ 123,535</u>
Expenditures:			
Salaries and Wages.....	\$ 1,143,188	\$ 1,129,668	\$ 13,520
Other Personnel Costs.....	272,052	333,151	(61,099)
Contractual Services.....	159,969	160,329	(360)
Materials and Supplies.....	8,210	9,548	(1,338)
Equipment - Replacement and Additional.....	7,383	9,151	(1,768)
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures.....	<u>\$ 1,590,802</u>	<u>\$ 1,641,847</u>	<u>\$ (51,045)</u>
Excess of Revenues Over Expenditures.....	<u>\$ 294,630</u>	<u>\$ 120,050</u>	<u>\$ 174,580</u>

See notes to the financial statement.

**BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
Notes to the Financial Statement**

1. Background

The Board of Liquor License Commissioners for Baltimore City (BLLC) is an agency of the State of Maryland and, therefore, is not subject to the direct supervision of the Mayor and City Council of Baltimore. The BLLC is responsible for processing applications and renewals for licenses to sell beer, wine, and liquor; conducting periodic inspections of businesses licensed to sell alcoholic beverages; collecting all license fees and fines; fining, suspending, or revoking the licenses of violators of liquor laws; and licensing and regulating adult entertainment businesses in Baltimore City. The revenues from the issuance of liquor licenses, fines, late fees, etc., are paid to the Baltimore City's (City) Director of Finance, and all expenditures of the BLLC are paid by the City.

The BLLC, by regulation and State Law, currently controls the number of new liquor licenses. There are approximately 1,450 liquor licenses in Baltimore City. The BLLC also closely regulates applications for transfer of licenses, as well as the issuance of licenses for special events.

Consistent with the provisions of Senate Bill 676 adopted in May 1997, authorization was given to make all unclassified BLLC inspectors part of the classified civil service of Baltimore City. Furthermore, with the passage of Senate Bill 302 adopted in April 1998, approval was also given to make certain unclassified BLLC inspector supervisor and clerical positions part of the City's classified civil service. Senate Bill 302, as approved, also gave the BLLC, with the advice and consent of the City's members of the Maryland State Senate, the authority to determine the salaries of certain of the BLLC's employees.

2. Significant Accounting Policies

The BLLC's policy is to prepare its financial statement on the cash basis; consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statement does not purport to present the results of operations on the accrual basis of accounting.

Encumbrances charged to the BLLC's appropriation accounts are not reflected in the financial statement.

3. Rates of License Fees

The following license fee rates were in effect for fiscal year 2005:

<u>License Class and Description</u>		<u>Symbol</u>	<u>Rate</u>
<i>Beer and Light Wine</i>			
Class A	Off Sale - Package Goods	WA	\$110.00
Class A	Off Sale - Supplemental to WA (per Sunday)	WAS	50.00
Class B	On Sale - Restaurant	WB	165.00
Class C	On Sale - Club	WC	82.50
Class C	On Sale - One Day	WS	25.00
Class D	On Sale - Tavern	WD	165.00

Beer, Wine and Liquor

Class A	Off Sale - Package Goods	LA	\$715.00
Class A-2	Off Sale - Package Goods	LA-2	715.00
Class A	Off Sale - Supplemental to LA (per Sunday)	LAS	50.00
Class B	On Sale - Restaurant	LB	1,100.00
Class B	On Sale - Hotel and Motel	LBHM	5,500.00
Class B	On Sale - Arena License	LBAL	10,000.00
Class B	On Sale - Racetrack (per day)	LBRL	55.00
Class C	On Sale - Club	LC	550.00
Class C	On Sale - One Day	LS	50.00
Class D	On Sale - Tavern	LD	687.50
Class D	On Sale - Supplemental to LD (per Sunday)	LDS	75.00
Class BD-7	On Sale - Special License (including amusement license)	LBD7	1,320.00

The following annual license fees are also applicable:

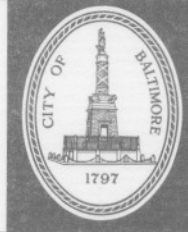
Adult Entertainment Establishments	\$1,000.00
License Extension	200.00
Transfer License	100.00
Advertising Fee	400.00
Substitution Transaction	200.00
Off-premises Catering Privileges	500.00

The BLLC has the authority to assess a late charge at the rate of \$50 per day for each day that an application for renewal is filed late. The late charge assessed may not exceed \$1,500. Applications for renewal must be filed during the month of March each year.

BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Alcoholic Beverage Licenses.....	\$ 1,625,000	\$ 1,678,474	\$ 53,474	\$ 1,550,000	\$ 1,614,033	\$ 64,033
Liquor Board Advertising Fees.....	70,000	89,867	19,867	70,000	71,906	1,906
Liquor Board Fines.....	100,000	96,326	(3,674)	100,000	56,175	(43,825)
Liquor Board Late Renewal Fees.....		19,530	19,530		18,075	18,075
Liquor Board Reporting Fees.....		1,235	1,235		1,708	1,708
Total Revenues.....	<u>\$ 1,795,000</u>	<u>\$ 1,885,432</u>	<u>\$ 90,432</u>	<u>\$ 1,720,000</u>	<u>\$ 1,761,897</u>	<u>\$ 41,897</u>
Expenditures and Encumbrances:						
Salaries and Wages.....	\$ 1,216,179	\$ 1,149,041	\$ 67,138	\$ 1,181,385	\$ 1,136,871	\$ 44,514
Other Personnel Costs.....	310,018	273,535	36,483	309,078	333,830	(24,752)
Contractual Services.....	191,803	171,862	19,941	171,375	182,755	(11,380)
Materials and Supplies.....	9,000	6,098	2,902	9,000	12,347	(3,347)
Equipment - Replacement.....	8,000	11,256	(3,256)			
Equipment - Additional.....		50,000	(50,000)	12,000	9,150	2,850
Total Expenditures and Encumbrances.....	<u>\$ 1,735,000</u>	<u>\$ 1,661,792</u>	<u>\$ 73,208</u>	<u>\$ 1,682,838</u>	<u>\$ 1,674,953</u>	<u>\$ 7,885</u>
Excess of Revenues Over Expenditures and Encumbrances.....	<u>\$ 60,000</u>	<u>\$ 223,640</u>	<u>\$ 163,640</u>	<u>\$ 37,162</u>	<u>\$ 86,944</u>	<u>\$ 49,782</u>
Adjustments to Conform to Cash Basis:						
Elimination of Effect of Encumbrances.....		63,653			25,225	
Elimination of Effect of Accruals.....		7,337			7,881	
Excess of Revenues Over Expenditures - Cash Basis.....		<u>\$ 294,630</u>			<u>\$ 120,050</u>	

AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
FOR THE
BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 AND 2004



**AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF A FINANCIAL STATEMENT PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 30, 2006

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates
City of Baltimore

We have audited Exhibit A, the Board of Liquor License Commissioners for Baltimore City's Comparative Statement of Revenues Collected and Expenditures Arising from Cash Transactions for Fiscal Years Ended June 30, 2005 and 2004, and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board of Liquor License Commissioners for Baltimore City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board of Liquor License Commissioners for Baltimore City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of internal control findings as **CONDITION I**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over



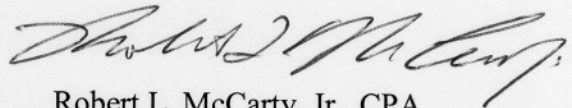
financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Liquor License Commissioners for Baltimore City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Liquor License Commissioners for Baltimore City, the State of Maryland, and the City of Baltimore management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Robert L. McCarty, Jr.", written in dark ink.

Robert L. McCarty, Jr., CPA
City Auditor

SCHEDULE OF INTERNAL CONTROL FINDING

REPORTABLE CONDITION INVOLVING INTERNAL CONTROLS

CONDITION I – UNDERLYING TIME RECORDS DID NOT SUPPORT PAYROLL ATTENDANCE REPORT INFORMATION

The Board of Liquor License Commissioners for Baltimore City (BLLC) did not adhere to policies and procedures established by the City regarding the maintenance of positive time-keeping payroll attendance records and related supporting documentation. The BLLC maintains daily logs with sign-in/sign-out times for its administrative staff and full-time inspectors. However, the logs for the full-time inspectors do not support the actual hours worked by those individuals. Instead, those logs usually indicate the sign-in/sign-out times for the daily inspector's meetings in the office, prior to going out on the various inspection assignments, and the logs are not signed by an appropriate supervisor to verify whether a full day was actually worked by those inspectors. Even those logs, however, were not complete. We reviewed the logs of the full-time inspectors for two pay periods during fiscal year 2005 and found that there were numerous instances where the inspectors signed in for the daily meeting at the office but did not sign out. Additionally, the BLLC's original authorized copy of the Payroll Attendance Report (PAR) for all employees' payroll could not be located for one of the two periods selected for testing.

According to the City's Administrative Manual (Section 205-10), all agencies must install a positive time-keeping system that includes contemporaneously maintained individual time records. Acceptable reporting practices could consist of, for example, daily sign-in/sign-out records or daily work crew reports or daily duty assignment rosters maintained and reported by the foreman or supervisor. Inspectors in the field at the end of the workday could call out to the supervisor to record sign-out times. Regardless of the time-keeping option used, the completed forms as well as any leave approvals must be submitted through the immediate supervisor responsible for reporting individual or group location attendance to the payroll clerk as a basis for preparing the PARs, now replaced by the eTIME automated time keeping system.

Also, the days and hours worked as reported on the City's payroll accounting records did not reflect the actual days and hours worked by the BLLC employees. Each pay period for bi-weekly full-time employees normally consists of fourteen (14) days, i.e., two weeks of working Monday through Friday (ten days), with Saturdays and Sundays off (four days). The full-time inspectors assigned to the night shift, however, generally worked in teams consisting of a dispatcher and an inspector, to respond to nighttime complaints, and were on duty/on call for seven nights in a row, followed by seven nights off. It is our understanding that the nighttime inspection teams were not required to actually report to work, but instead, were considered to be on call to respond to nighttime complaints. Since they were on duty/on call for seven nights in a row, in order to account for ten working nights each pay period, three of those ten nights were treated as a type of leave (unless they worked, in which case the three days were considered to be compensatory time earned). It is our understanding, however, that there were no official records

to account for those three nights, either used as unofficial leave or earned as compensatory time. For those unofficial leave nights, the affected inspectors were marked present on the Payroll Attendance Reports as if they were working Monday through Friday for the two-week pay period.

As recommended in our previous year's audit, we again recommend that the BLLC implement internal controls that provide a positive time-keeping system to support the attendance of all of its employees. We also recommend that the BLLC seek the assistance of pertinent Baltimore City Departments (including representatives from the Office of the Labor Commissioner, the Department of Law, the Department of Human Resources, and the Department of Finance Bureau of Accounting and Payroll Services) to develop appropriate payroll and attendance procedures that address issues unique to the staffing of the BLLC. Besides addressing such issues as the proper classification of employees, proper rules for overtime, shift differential, and official records for earning and using leave, procedures should be developed so that the payroll records are more reflective of the actual days and hours worked by all BLLC employees.

ATTACHMENT I

BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY

FISCAL YEAR ENDED JUNE 30, 2005

STATUS OF PRIOR YEAR'S

FINDING AND RECOMMENDATION

(Finding not considered to have a material effect
on the financial statement)

ATTACHMENT I

**BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY
FISCAL YEAR ENDED JUNE 30, 2005
STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATION**

**CONDITION I – UNDERLYING TIME RECORDS DID NOT SUPPORT PAYROLL
ATTENDANCE REPORT INFORMATION**

As part of our fiscal year 2004 audit, we found that the BLLC did not adhere to policies and procedures established by the City regarding the maintenance of payroll attendance records and related supporting documentation.

Current Audit Status

As part of our fiscal year 2005 audit, we selected two pay periods during fiscal year 2005 and reviewed the applicable Payroll Attendance Reports (PARs) and supporting documentation. We noted a similar finding during fiscal year 2005 regarding the lack of a positive time-keeping system, and it is included as Condition I in this report. In addition, one of the two PARs selected for testing in fiscal year 2005 could not be located.

APPENDIX I

BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR BALTIMORE CITY'S
RESPONSE TO THIS REPORT

MARK S. FOSLER
CHAIRMAN

COMMISSIONERS
JEFFREY B. POPE
EDWARD SMITH, JR.



NATHAN C. IRBY, JR.
EXECUTIVE SECRETARY

JANE M. SCHROEDER
DEPUTY EXECUTIVE SECRETARY

STATE OF MARYLAND

BOARD OF LIQUOR LICENSE COMMISSIONERS

FOR BALTIMORE CITY

6TH FLOOR, 231 E. BALTIMORE STREET

BALTIMORE, MARYLAND 21202-3258

(410) 396-4377

January 5, 2007

Robert L. McCarty, Jr., CPA
City Auditor
100 N. Holliday Street, Room 321
Baltimore, Maryland 21202

Re: Reportable Condition

Dear Mr. McCarty:

This letter is in response to a condition identified in the auditor's report for the Board of Liquor License Commissioners for the period ending June 30, 2005 and 2004.

CONDITION I – UNDERLYING TIME RECORDS DID NOT SUPPORT PAYROLL ATTENDANCE REPORT INFORMATION AND PAYROLL ATTENDANCE REPORT COULD NOT BE LOCATED

The Board of Liquor License Commissioners maintains daily logs with sign-in/sign-out times for the administrative staff and full-time inspectors. To support the actual hours worked by the employees, we will institute a signature line and require the signature of a supervisor on each sign-in sheet.

The audit notes that an original authorized copy of one of the Payroll Attendance Report (PAR) for all employees' payroll could not be located for one of the two periods selected for testing. Under the current eTime payroll system, this should not be a problem in the future.

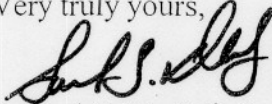
In order to respond to complaints outside normal business hours, we have inspectors who work a 14 day shift from 7 p.m. to 3 a.m. Unfortunately, we do not have enough budget or staff to cover a five day cycle that would fit the current eTime system. In the coming months, we shall

Page 2

work with eTime to create an accommodating solution for documentation of actual hours worked.

We appreciate your efforts and your continuing support in seeking a workable solution through the payroll system. I remain confident that a method to mutually satisfy form and function is attainable.

Very truly yours,

A handwritten signature in black ink, appearing to read "Samuel T. Daniels, Jr.", written in a cursive style.

Samuel T. Daniels, Jr.
Executive Secretary

STD/cc